

# REPORT OF THE AUDITOR-GENERAL to the Western Cape Provincial Parliament and the council on the City of Cape Town

## REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

### Introduction

1. I have audited the consolidated and separate financial statements of the City of Cape Town and its entities set out on pages 121 to 192, which comprise the consolidated and separate statement of financial position as at 30 June 2014, the consolidated and separate statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the City of Cape Town and its entities as at 30 June 2014 and their financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

### Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Material impairments/losses

8. As disclosed in note 8 to the consolidated financial statements, receivables have been significantly impaired. The impairment allowance amounts to R4,2 billion (50% of the gross balance of receivables) of which R2,9 billion (33% of the gross balance of receivables) relates to service debtors.
9. As disclosed in note 9 to the consolidated financial statements, other receivables have also been significantly impaired. The impairment allowance amounts to R895,3 million (68% of the gross balance of other receivables).
10. As disclosed in note 8 to the consolidated financial statements, material losses to the amount of R574,8 million were incurred as a result of a write-off of irrecoverable trade debtors.

### Material underspending of the budget

11. As disclosed in the consolidated statement of comparison of budget and actual amounts, the municipality has materially underspent the capital budget to the amount of R1,1 billion (20%).

### Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unaudited supplementary schedules

13. The supplementary information set out on pages 193 to 205 does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion thereon.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.



# REPORT OF THE AUDITOR-GENERAL to the Western Cape Provincial Parliament and the council on the City of Cape Town (continued)

## Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the municipality and its municipal entity for the year ended 30 June 2014:

### Municipality

- Objective 1.2: Provide and maintain economic and social infrastructure to ensure infrastructure-led economic growth and development (page 216 to 217)
- Objective 3.2: Ensure innovative human settlements for increased access to those who need them (pages 218 to 219)
- Objective 3.3: Assess the possible sale or transfer of rental stock to identified beneficiaries, using established criteria (pages 218 to 219)
- Objective 3.4: Provide for the needs of informal settlements and backyard residences through improved services (pages 218 - 219)

### Municipal entity (Cape Town International Convention Centre)

- Key performance area 1: Events (page 222)
- Key performance area 3: Customer centricity and service excellence (page 222)
- Key performance area 6: Governance (page 222)

17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information.
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development objectives.

## Additional matter

21. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected development objectives, I draw attention to the following matter:

## Achievement of planned targets

22. Refer to the annual performance report on pages 216 to 221 for information on the achievement of planned targets for the year.

## Compliance with legislation

23. I performed procedures to obtain evidence that the municipality and its municipal entity had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

## Internal control

24. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

## OTHER REPORTS

### Investigations

25. As reported in the prior period, an investigation was conducted by the Office of the Public Protector (OPP) into the purchase of land by the City of Cape Town. This resulted in a recommendation by the OPP that an investigation be instituted by the City of Cape Town's forensic, ethics and integrity department (FEID) into supply chain management procedures of the Cape Town International Convention Centre Company SOC Ltd's (CTICC) expansion project. The investigation by the City's FEID and the reviews performed by the board of the CTICC were finalised on 21 October 2014.
26. One hundred and seventy-three (173) open cases (2012-13: 170) relevant to the City of Cape Town appeared in the FEID register at the end of the financial year under review. The movement in the cases is as follows:
  - Two hundred and thirty-five (235) new cases relating to alleged fraud, corruption, theft and the misuse of public funds were investigated by the FEID during the year.
  - One hundred and eighty (180) cases were concluded during the year, of which (62) relate to the current year and (118) to prior years.

*Auditor-General*

Cape Town  
17 December 2014

